

**IN THE UNITED STATES DISTRICT COURT
FOR THE WESTERN DISTRICT OF PENNSYLVANIA**

GRANT STREET GROUP, INC.,)	
)	
Plaintiff,)	Civil No. 2:09-cv-01407-DWA
)	
vs.)	
)	
REALAUCTION.COM, LLC,)	Honorable Donetta W. Ambrose
)	
Defendant.)	Special Master Paul A. Beck

**SPECIAL MASTER’S RECOMMENDATION AND PROPOSED
RULING ON DEFENDANT’S MOTION TO STAY**

-I-

Summary Opinion

This matter is before the Court on the defendant’s Motion to Stay Pending Reexamination of the Patent in Suit [Doc 86].

The Master believes a stay would unfairly prejudice the plaintiff and the Motion should be denied.

The suit was filed October 20, 2009. The case has been advancing in discovery and patent claim construction proceedings are in progress.

The defendant filed a request for reexamination of the Patent April 21, 2010 and it was granted July 8, 2010.

The Patent (No. 7,523,063) covers a process and apparatus for conducting auctions over the internet. The auctions are for financial products, municipal bonds, corporate commercial paper, corporate bonds, notes, U.S. Treasury instruments, equity offerings and in general any financial instrument.

Judge Newman in the Federal Circuit in a 2009 concurring opinion noted the average pending time for *ex parte* reexamination is 36.1 months. *Fresenius USA, Inc. v. Baxter International, Inc.*, 582 F.3d 1288, 1305 (Fed. Cir. 2009). The Patent Office is still experiencing a heavy increase in appeals and a backlog of appeals. *Id.* at 1306. Judicial review by appeal adds more to the pendency.

The Master believes if this trend holds, the parties will be looking at years before this case resumes again in Court.

The parties are competitors. Defendant sells services and products for electronic auctioning of tax certificates, tax deeds and foreclosures which plaintiff sees as an infringement (P's Br. 5). Plaintiff believes that plaintiff and defendant are essentially the only participants in that market (P's Br. 9). Plaintiff contends that money damages alone will not fully compensate the plaintiff for losses it will suffer from being unable to exclude the defendant from selling accused products and gain some if not all of defendant's wrongfully obtained market share (P's Br. 10). The defendant questions this logic. Defendant asserts that if plaintiff eventually gets its injunction because it is in a two-supplier market, the "plaintiff will be left as the only game in town, allowing it to immediately capture and serve the entire market going forward" (D's Rep. Br. 3).

The defendant's point is well taken.

The defendant argues that if plaintiff prevails at trial and gets an injunction plaintiff "will receive its money damages for any alleged interim infringement" (D's Rep. Br. 3).

Plaintiff's position is that money damages will not be sufficient for the "interim infringement."

The Master agrees that this too could be true.

The defendant has the majority of the market for online foreclosure sales and its portion continues to grow (P's Br. 9). The plaintiff expects that the volume of the market is likely to drop in the next few years as the housing market recovers (P's Br. 5).

When the parties are competitors it can cause irreparable injury that is not remediable by money damages.

If money damages are insufficient to compensate, then injunctive relief is necessary to preserve the legal interests against infringement. Injunctive relief could be the main remedy. If it is denied because of a stay while waiting on the reexamination the plaintiff will lose value at a critical time while the total market climbs. Then when the auction business related to foreclosures begins to drop because the housing market improves (in a few years) and the plaintiff goes back to Court to get an injunction after the reexamination proceedings are concluded, it will have lost the interim opportunity that existed before the auction market dipped.

The problem with the stay is the time that it will take. The plaintiff is looking at years to get back into Court.

No one knows what is going to happen in the reexamination. At one end of the spectrum no patent will issue. At the other end the claims will remain. In the middle there could be some claims with modifications that may or may not infringe.

Who should bear the burden of a “stay” or “no stay” pending the outcome of reexamination?

If the reexamination would be concluded in substantially less time than now projected the Master would grant the stay for reasons given by the defendant because the possible benefits would seem to outweigh the downside perceived by the plaintiff during a short period. Time is the factor.

The plaintiff has a Patent which was given an examination by the Patent Office before it was granted.

The defendant rather than choosing to take all the issues to the Court in a trial decided to ask for reexamination and take some of those issues to the Patent Office.

If the claims remain the same or are not significantly changed the defendant can still argue those same issues in the Court to try to get the Court to hold the Patent invalid. The Master believes that if there is a short period of time for a stay the plaintiff should bear the burden. If there is a long period of stay the defendant should bear the burden.

To do otherwise would have the effect of devaluing the Patent.

-II-

Three-prong Test that Courts Have Used to Guide the Decision on Whether to Stay

The court has the power and discretion to stay an action for patent infringement pending reexamination of the patent by the Patent Office. *See In re Laughlin Products, Inc.*, 265 F.Supp.2d 525, 530 (E.D. Pa. 2003); *Innovative Office Products, Inc. v. Spaceco Business Solutions, Inc.*, 2008 U.S. Dist. LEXIS 67500, *8 (E.D. Pa. 2008).

Deciding whether to stay litigation pending reexamination courts have considered three factors as a guide:

(i) whether a stay would unduly prejudice the nonmoving party or present a clear tactical advantage for the moving party;

(ii) whether a stay will simplify the issues; and

(iii) whether discovery is complete and whether a trial date has been set.

See In re Laughlin Products, Inc., 265 F.Supp.2d at 530; *Innovative Office Products, Inc.*, 2008 U.S. Dist. LEXIS 67500, at *8; *Delta Frangible Ammunition, LLC v. Sinterfire, Inc.*, 2008 U.S. Lexis 78999, *2-3 (W.D. Pa. 2008); *Nidec Corporation v. LG Innotek Co., Ltd.*, 2009 U.S. Dist. LEXIS 46123, *4 (E.D. Tex. 2009); *Borgwarner, Inc. v. Honeywell International, Inc.*, 2008 WL 2704818, *1 (W.D.N.C. 2008).

The parties do not contest this guide. They do argue the application of it to the facts in this case.

“There is no conflict between a reexamination and a challenge to a patent in federal court.” *Innovative Office Products, Inc.*, 2008 U.S. Dist. LEXIS 67500, at *8.

A. Prejudice

The defendant argues – if the plaintiff is successful money damages would be adequate to compensate for past infringement (D’s Br. 7). The defendant argues that the plaintiff implicitly acknowledged the sufficiency of money damages because the plaintiff did not seek a preliminary injunction (D’s Br. 7).

The plaintiff argues – money damages alone will not be adequate to compensate for infringement during the years of the stay (P’s Br. 2).

The plaintiff points out that the defendant has captured a majority of the market for online foreclosure sales during the current peak. The volume of the market is likely to drop substantially after the next two years as the housing market recovers and foreclosures drop (P’s Br. 5).

Defendant is a direct competitor with plaintiff for online tax certificates, tax deeds and foreclosure auctions (P’s Br. 9). This will compound the problem by the defendant gaining market share where the plaintiff and defendant are the only participants (P’s Br. 9).

The plaintiff contends it has done its best to proceed toward getting an injunction as promptly as possible in a manner consistent with the Local Rules (P’s Br. 5). Plaintiff has relied on the streamlined procedures of the Local Rules to pursue a prompt trial instead of pursuing a preliminary injunction.

The Master’s Analysis

The parties are direct competitors and are the only ones participating in the market. Courts have recognized that where the parties are in direct competition a stay would likely prejudice the non-movant. *See Nidec Corporation*, 2009 U.S. Dist. LEXIS 46123, at *11; *Tesco Corporation v. Weatherford International, Inc.*, 599 F. Supp. 2d 848, 851 (S.D. Tex. 2009). Because the parties are competitors it can cause irreparable injury that is not remediable by money damages. *See Nidec Corporation*, 2009 U.S. Dist. LEXIS 46123, at *11.

Money damages are not likely to compensate for the loss of market share in the expected shifting of the market. This is due in part to the difficulty in calculating money damages and proving them. Injunctive relief is often necessary to preserve the legal interests of a party against harm to the patent owner's market share, reputation, and harm to the goodwill of the patent owner. Money damages are not adequate to compensate for those losses.

Because the parties are direct competitors in a two-supplier market, the dynamics in the market are such that each transaction the defendant profits from may deprive the plaintiff of market share, revenue, and brand recognition. *See Arlington Industries, Inc. v. Bridgeport Fittings, Inc.*, 2010 WL 817519, *4 (M.D. Pa. 2010) (finding irreparable harm when defendant's infringement caused patentee to lose business, goodwill, and harmed its reputation)(citing *TruePosition Inc. v. Andrew Corp.*, 568 F.Supp.2d 500, 531-32 (D.Del. 2008)).

The time expected to pass for *ex parte* reexamination proceedings has been noted by Judge Newman to be 36.1 months. *See Fresenius USA, Inc. v. Baxter International, Inc.*, 582 F.3d 1288, 1305-06 (Fed. Cir. 2009). In the interim period while waiting for the reexamination proceedings to conclude, the plaintiff would have to rely on damages which is not sufficient. This is harmful to the plaintiff because plaintiff will be missing the current robust market which is likely to be on a high during the interim of the stay.

As to the plaintiff not asking for a preliminary injunction, preliminary injunctions are difficult to get because of the level of proof that must be shown. The plaintiff instead relied upon a course to achieve the next thing it could expect to count on which is to get a

swift adjudication with an injunction with the assistance of the court's Local Patent Rules. These rules were designed to provide a swift conclusion of the dispute (P's Br. 3).

B. Will Reexamination Simplify the Issues, the Trial, and the Legal Work in the Litigation?

The defendant argues:

- (i) there is a 75% chance the claims will be changed or cancelled (D's Br. 2);
- (ii) amending the scope of the claims statistically occurs 62% of the time (D's Br. 5);
- (iii) at the minimum the scope of the claims will be changed (D's Br. 5);
- (iv) if the reexamination concludes finding the patent invalid, the case is resolved (D's Br. 5); and
- (v) amending the scope of the claims would limit the scope of claims that defendant could have infringed (D's Br. 5).

The plaintiff argues:

- (i) defendant provided no support that reexamination is likely to simplify the issues (P's Br. 13);
- (ii) defendant's sole support for defendant's assertion that the claims are more likely than not to be amended, narrowing the scope in light of the prior art, is the PTO statistics reflected as of June 2010 that 65% of all ex parte reexaminations lead to claim changes (P's Br. 4);

- (iii) defendant does not and cannot explain why the claims are likely to be narrowed and how, and if so, how that would simplify the issues (P's Br. 14);
- (iv) it is difficult to determine if any claims are cancelled how significant the modifications would be to this action (P's Br. 14); and
- (v) using the statistics relied upon by defendant there is an 88% chance that claims will remain after the reexamination (P's Br. 15).

The Master's Analysis

The answer to the question posed is that it depends on what the Patent claims look like after the claims go through the reexamination process.

The possible outcomes are:

1. all the claims remain as originally issued;
2. all of the claims are cancelled;
3. some of the claims remain as originally issued;
4. some of the claims as originally issued are modified;
5. some of the claims are cancelled; or
6. a combination of some of the above.

At one end of the spectrum is if all of the claims remain as originally filed there would be no simplification of the litigation and the parties would be exactly where they are now subject to some arguable nuances.

At the other end of the spectrum is if no claims remain that is the end of the litigation.

Between these two ends of the spectrum there are many possibilities which are difficult to predict which ones are more likely to occur and which ones are less likely to occur.

The defendant presented its take on the statistics such that there is a 75% chance that all claims will be changed or cancelled (D's Br. 2); or amendment to the claims is a 62% chance (D's Br. 5).

The plaintiff presented its take on the statistics (eg. That there is an 88% chance that asserted claims will remain after the reexamination) (P's Br. 15).

Will reexamination simplify the legal work ahead? We don't know.

There are many variables and unknowns which could have varying degrees of impact. The Master is reluctant to rely on the statistics and drill down as to what they really show or don't show and apply them with some level of confidence in this situation. The numbers can be argued as to what they mean depending upon the interest in the outcome that is desired or argued.

The Master would only be applying arbitrary conjecture to say whether or not it is more likely than not or less likely than not to simplify the issues in the litigation.

C. Whether Discovery is Complete and a Trial Date is Set

The defendant notes that:

- (i) the claims have not been construed (D's Br. 1);
- (ii) parties are still preparing mid-hearing Markman briefs (D's Br. 1);

- (iii) the Master has not issued recommendations on the claim construction issues in dispute (D's Br. 2);
- (iv) no depositions have been taken (D's Br. 2);
- (v) expert discovery has not begun (D's Br. 2);
- (vi) no trial date is scheduled (D's Br. 2);
- (vii) most of the discovery still needs to take place (D's Br. 7);
- (viii) plaintiff has not completed its document production (D's Br. 7);
- (ix) there are discovery disputes about plaintiff's e-discovery compliance and its document productions to date (D's Br. 7);
- (x) neither party has yet taken or scheduled fact depositions (D's Br. 7); and
- (xi) neither party has produced expert reports or taken any expert depositions yet (D's Br. 7).

The plaintiff notes that:

- (i) the parties are fully engaged in discovery and have nearly completed claim construction (P's Br. 15);
- (ii) parties have exchanged disclosures required under Local Rules (P's Br. 16);
- (iii) parties have propounded and answered written document requests and interrogatories (P's Br. 16);
- (iv) parties have exchanged more than 50,000 pages of documents and electronically stored information (P's Br. 16);
- (v) parties served eight subpoenas on third parties (P's Br. 16);
- (vi) parties' initial claim construction was completed May 2010 (P's Br. 16);

(vii) the Markman hearing was held July 9, 2010 and but for defendant's filing the Motion to Stay the supplemental claim construction briefing would have been completed August 5, 2010 (P's Br. 16); and

(viii) even though a trial date has not been set the case is not in its infancy.

The Master's Analysis

The Master finds no error in the facts represented by the parties. The parties advocate different conclusions drawn from the facts.

There is no trial date set. However the Local Patent Rules are designed to get to trial swiftly. There is no assurance that goal will be reached.

Up to this point from the Master's observation the parties have been complying with the Local Patent Rules.

Courts have opined on factors that can be considered to deny stay such as:

(i) denying stay where case was in the middle of the litigation life cycle, and a significant investment of the court's time and substantial litigation on claim construction was completed (*Delta Frangible Ammunition, LLC v. Sinterfire, Inc.*, 2008 U.S. Dist. LEXIS 78999, *6 (W.D. Pa. 2009));

(ii) case was beyond initial stages where a stay would be appropriate because plaintiff produced documents, served interrogatories, defendant was in the process of producing documents, and parties were to exchange claims in dispute (*Nidec Corporation*, 2009 U.S. Dist. LEXIS 46123, at *18-19);

(iii) parties completed claim construction briefing and Markman hearing was scheduled within a few days (*Roy-G-Biv Corporation v. FANUC LTD.*, 2009 U.S. Dist. LEXIS 69004, *8-9 (E.D. Tex. 2009)); and

(iv) case not scheduled for trial, Markman hearing not completed but parties had exchanged 125,000 pages of documents and filed submittals and memoranda on claim construction (*Borgwarner, Inc. v. Honeywell International, Inc.*, 2008 WL 2704818, at *1).

The conclusion the Master draws from all of these cases is that this case is beyond infancy as stated by the plaintiff. The discovery appears to have been significant.

-III-

Judge Newman's Concurring Opinion Sheds Light

Judge Newman's concurring opinion September 2009 in Court of Appeals for the Federal Circuit, *Fresenius USA, Inc. v. Baxter International, Inc.*, 582 F.3d 1288 (Fed. Cir. 2009) sheds some light on this in vexing matter. Below is some quoted language from her opinion.

The entire opinion which is very brief should be read.

“I join the court's opinion, but I write separately to respond to Judge Dyk's separate opinion, in which he proposes that the district court should stay completion of this litigation, in view of the pending

reexamination proceeding. Although this proposal is not adopted it warrants response.” *Id.* at 1304.

“Further this question has been neither briefed nor debated. Its *sua sponte* presentment as available at this stage is irregular.” *Id.* at 1305.

“Our colleague in concurrence appears to believe that a PTO decision on reexamination will override a judicial decision reached after trial and appeal. That is incorrect. All that can be accomplished is delay. In exercising its discretion to deny or grant a stay pending reexamination, a district court should consider the effect of delay upon a patentee.” *Fresenius USA, Inc.*, 582 F.3d at 1305 n.1.

“The relationship between reexamination and litigation is not new to the courts, and precedent reflects the variety of responses in particular situations, as summarized.” *Id.* at 1305. (citation omitted)

“It is established that a ‘court is not required to stay judicial resolution in view of the reexaminations.’” *Id.* (citation omitted)

“I remain a strong supporter of the principle of reexamination. It can be a useful and powerful tool for

the benefit of both patentees and those interested in restricting or eliminating adversely held patents. However, if routinely available to delay the judicial resolution of disputes, the procedure is subject to inequity, if not manipulation and abuse, through the delays that are inherent in PTO activity. The statistical data of the Patent and Trademark Office place this aspect in sharp relief, for the number of reexamination requests is increasing, as is the time for completion of reexamination and appeal in the PTO, as well as the right of judicial review. In its recent statistical summaries, the PTO reports a 54% increase in filing of ex parte reexaminations since 2004 (from 441 in 2004 and 680 in 2008, and with 481 filings through June 2009).” *Id.*

“The PTO also reports that as of the third quarter of 2009, the average pendency for ex parte reexamination is 36.1 months, an increase from the 34.6 months at December 2008. (citation omitted) The pendency of inter partes reexamination is reported to average 41.7 months. (citation omitted) Decisions on reexamination can be appealed to the Board and are

subject to judicial review. The PTO reports that the Board is still experiencing a heavy increase in appeals and the backlog of appeals.” *Id.* at 1305-06.

-IV-
Conclusion

The Master does not view the three tests or criteria as a best out of three prevails. The dominating persuasive force is the market dynamics the parties find themselves in with the prospect of staying the case for years for unknown speculative benefit from the reexamination.

The Master believes the prejudice to the plaintiff in these circumstances is unfair and outweighs the benefits that could be achieved by a stay.

Master’s Recommended Ruling

The Master recommends to the Court that the defendant’s Motion to Stay be denied.

Date: August 6, 2010

cc: All Counsel of Record

Respectfully,

s/Paul A. Beck
Paul A. Beck

Special Master